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Potlatch.

March 5, 2012

VIA E-MAIL

Dan Opalski
Cyndy Mackey
Region 10
U.S. Environmental Protection Agency (EPA)
1200 Sixth Avenue
Seattle, WA 98101

Re: Avery Landing Site
Docket No. CERCLA-10-2008-0135

Dear Dan and Cyndy:

As you know we have been involved in settlement negotiations with EPA for the past few months to resolve Potlatch's potential liability under CERCLA and the Clean Water Act at the subject site. The purpose of this letter is to provide you with some information with a view toward resolving this matter without further litigation. The information being provided to you herein is being given in the context of settlement negotiations. Nothing in this letter should be construed to be a waiver of any of Potlatch's rights and remedies or an admission of liability. Further, in accordance with Rule 408 of the Federal Rules of Evidence and applicable state law, this letter and the information provided in connection herewith should not be offered into evidence for any purpose.

Since our meeting in October, 2010, we believe that we have had a very productive and cooperative working relationship with Region 10 staff, including Earl Liverman and Richard Mednick as we have attempted to resolve our potential liability with respect to the subject site. We have greatly appreciated the EPA's creativity and flexibility in addressing the FHA and Bentcik properties. Unfortunately, we now find ourselves at an impasse in finalizing a settlement agreement with respect to the Site. We have been advised by Region 10 personnel that the impasse has come about not from a philosophical disagreement, but rather, from constraints to which the EPA is subject in reaching settlements.

In January, we reached a tentative agreement for Potlatch to pay the EPA $6 million in exchange for a covenant not to sue and contribution protection, subject to a reopener if remediation of the banks and bed of the St. Joe River is determined to be required. We were then advised that the EPA could not go ahead with the settlement, because it would require a Consent Decree

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approved by Department of Justice and there was insufficient time to obtain such a Decree before the commencement of the removal action in 2012.

We then reached an agreement, subject to documentation, pursuant to which the EPA would oversee the remediation of the site and Potlatch would pay 50% of mobilization costs applicable to all properties and 100% of direct costs applicable solely to the remediation of Potlatch property. In our discussions, it was envisioned that both parties would reserve all rights, and address covenants not to sue and contribution protection later in a Consent Decree to be negotiated by the parties following completion of cleanup in 2012. We were also advised that the Potlatch liability would cover direct costs for cleanup and that Potlatch would not be charged for EPA overhead.

We were then advised that the Department of Justice would require, in any settlement agreement, that Potlatch covenant not to sue the United States, including both the EPA and FHA, and that because the settlement would not be documented in a Consent Decree, the EPA (and presumably FHA) could not provide a mutual covenant not to sue and contribution protection. This latest development puts Potlatch in an untenable position of having to give up all rights to seek redress for mistakes, and being vulnerable to future claims by EPA and even the FHA. Moreover, Potlatch's concerns in this regard are not theoretical. Just last week we were informed that, notwithstanding previous assurances, the EPA now believes it made a mistake and would be billing Potlatch for approximately $2 million of oversight and overhead costs.[1]

In a continued effort to find a mutually acceptable settlement that would not delay a 2012 cleanup, Potlatch has worked with its outside counsel to find an approach that would address EPA constraints and at the same time adequately reflect our tentative agreement. We have therefore put forward the idea of documenting our settlement in a Unilateral Administrative Order (UAO) pursuant to a remediation plan for the entire site developed cooperatively with EPA. This would also allow both parties to reserve all rights and address mutual covenants not to sue at a later date. Alternatively, we are prepared to remediate our own property, pursuant to a remediation plan for the entire site developed cooperatively with the EPA. For the reasons we cannot enter into a settlement agreement for an EPA-led cleanup, we envision the issuance of a UAO for a Potlatch remediation on Potlatch property, with the parties to address any future liability in a Consent Decree at a later date. Should EPA issue a UAO, we recommend that the UAO not provide for EPA oversight costs. Such an arrangement is not uncommon in EPA UAO's and would avoid disputes on the amount of oversight costs during the cleanup. Any oversight costs could be addressed in a final Consent Decree. Finally, Potlatch strongly

[1] Potlatch believes that the estimated $2 million in these costs is overstated and unsupported.

recommends that EPA and Potlatch work together in developing an appropriate statement of work and a work plan as close coordination between the parties will be essential to a timely and efficient cleanup of the Site.

I want to assure you that our decision to reject a settlement agreement in favor of a UAO was not driven by any desire to delay or frustrate the cleanup process, but rather out of a concern about protecting ourselves and our shareholders in the future. Potlatch will continue to work with the EPA in good faith to endeavor to complete a cleanup of the site in 2012

We look forward to continued productive discussions with EPA to resolve this matter.

Very truly yours,

Lorrie D. Scott
Vice President, General Counsel & Corporate Secretary

cc: Richard Mednick